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# Africa Review

1 December 1978

**Secret**

RP AR 78-018  
1 December 1978

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AFRICA REVIEW

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NOTE: A Supplement to today's edition of AFRICA REVIEW has been published and disseminated in special intelligence channels.

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### Uganda: US Trade Embargo Adds to Economic Woes

The Ugandan economy, already suffering from lower world coffee prices and government mismanagement, will deteriorate further because of the US trade embargo, which has been in effect since early October. Even as alternative markets for Uganda's coffee are being found, lower prices--coupled with stagnant production--are pushing export earnings down and accelerating the decline in the economy's modern sector. Short petroleum supplies caused by US oil companies' observance of the trade boycott may have been one reason for President Amin's pullback from his recent invasion of Tanzania. (The invasion in part had been a diversion designed to help paper over unrest in the Ugandan Army.) (C)

Although the embargo is highly unlikely to topple the Amin government, the economic difficulties are eroding one of the principal underpinnings of Amin's control, namely, his ability to buy off potential opponents in the military. One consequence may be more "government by crisis," including claims of invasions or of attempted coups, to divert attention from economic hardships. (C)

### Economic Problems Brewing

Amin's ill-advised economic actions began almost as soon as he took power in 1971. He moved to divert attention from a balance-of-payments crunch and other economic

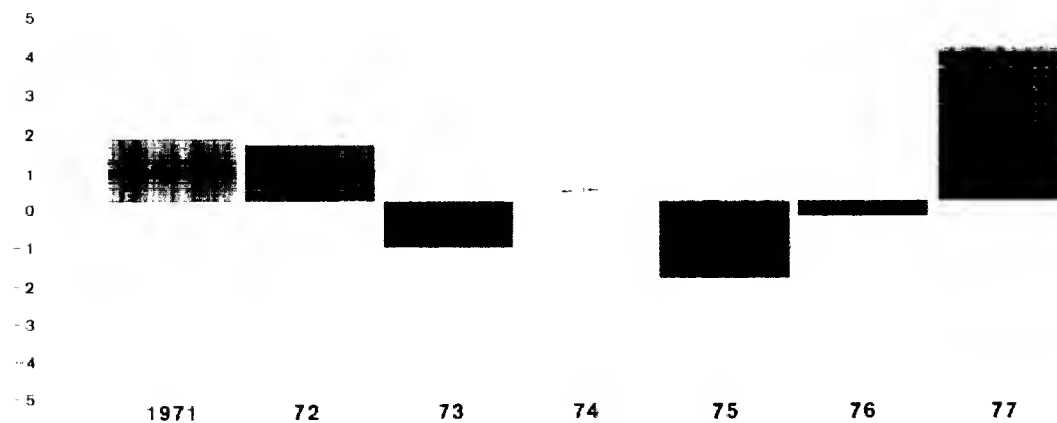
Uganda: Balance of Payments						Million US \$
	1973	1974	1975	1976	1977	1978 <sup>1</sup>
Trade balance .....	74	22	-24	87	373	112
Exports (f.o.b.) .....	278	299	229	326	745	452
Of which Coffee .....	183	179	169	299	710	430
Imports (c.i.f.) .....	204	277	253	239	372	340
Net services and transfers	-31	-47	-30	-43	-55	-55
Current account balance ..	43	-25	-54	44	318	57
Capital account balance ..	-48	-13	31	-45	-85	-80
Errors and omissions .....	6.3	28	20.5	-1.7	-237.4 <sup>2</sup>	24.9
Change in reserves .....	1.3	-10	-2.5	-2.7	-4.4	1.9

<sup>1</sup> Projected.

<sup>2</sup> Apparently reflects a large amount of coffee smuggling and capital outflows.

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**Uganda: Real Growth in GNP**  
Percent



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problems by declaring an "economic war" on foreign influences in the country. Exploiting racial tensions, the President blamed Uganda's Asian population of roughly 40,000 for the economy's ill health and proceeded to expel the Asians from the country. (C)

Since Asians made up most of the country's managers and skilled labor, their departure seriously impaired the day-to-day functioning of the economy. In particular, local industry and plantation agriculture suffered sharp losses in quantity and quality of output as Asians were replaced by inexperienced Ugandans. The loss of Asian traders severely disrupted the collection and distribution of goods between rural and urban areas and to and from foreign markets. Amin's dangerously unpredictable actions induced many educated Ugandans to follow the Asian exodus, aggravating management shortages. Amin responded by appointing loyal, but largely illiterate, Army officers to management positions. (S)

As a result, the economy has contracted in most years since Amin took power. Production of coffee, Uganda's chief cash crop and export, fell from 200,000 tons in 1971-72 to 137,000 tons in 1975-76. In 1976, high world prices for coffee temporarily led to a boost in the trade account. By 1977, higher coffee prices had turned around both coffee production and economic growth, pushing them up to 156,000 tons and 4 percent, respectively. In addition, the smaller industrial sector improved slightly last year, but most firms are still operating at barely 30 percent of capacity. (S)

Beyond the managerial and commercial elements, the majority of citizens have suffered from the loss of job opportunities and shortages of consumer goods that would have been available under more moderate leadership. The population also has suffered from physical harassment at the hands of Amin's ill-disciplined and bloodthirsty State Research Bureau and the Ugandan Army. (C)

#### Balance of Payments

High world coffee prices kept the Ugandan current account in substantial surplus in 1976-77, despite the negative impact of Amin's policies on production. Ugandan robusta coffee prices rose from 61 cents a pound in 1975

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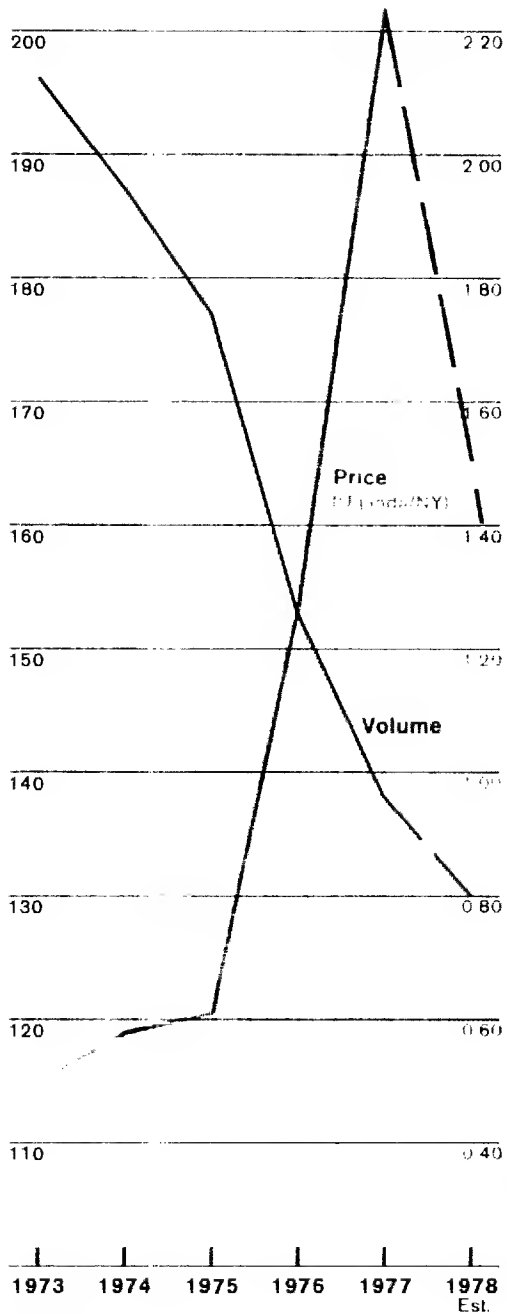
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# Uganda Coffee Exports:

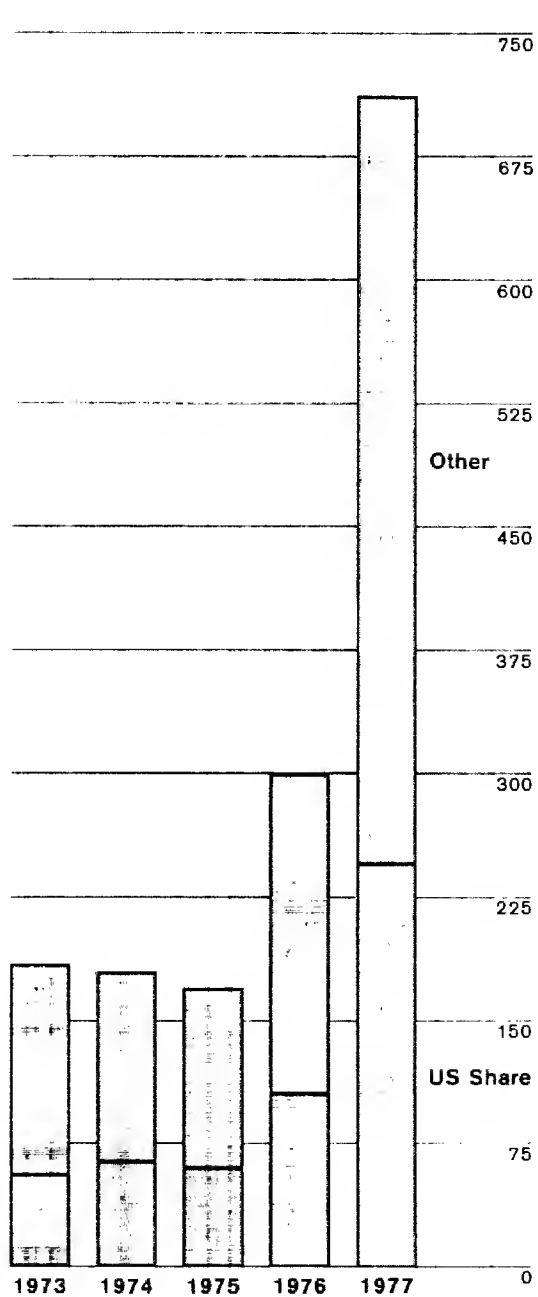
## Volume and Price

210 Thousand Tons      US\$ Per Pound 2 40



## Exports to Major Markets

Million US\$      825



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to \$1.28 in 1976 and \$2.23 in 1977; coffee revenues soared from 66 percent of export revenues in the early 1970s to 95 percent in 1977. The resulting trade surplus offset both a persistent deficit on services and most of the large capital outflows. (U)

This year the trade surplus is declining because of reduced US demand for Ugandan coffee, a sharp falloff in world coffee prices, and transportation problems.

- US coffee imports from Uganda fell by 46 percent in January-October 1978 (compared with the first 10 months of 1977), to \$111 million, as buyers began looking elsewhere in anticipation of the embargo.
- Robusta prices have declined to about \$1.40 a pound.
- A coffee airlift to the Red Sea port of Djibouti, used by Uganda to counter bottlenecks on the overland route through Kenya, was recently grounded because of fuel shortages. (S)

Despite its generally favorable current account position, Kampala has piled up arrears on import payments because of mismanagement by trade and bank officials. Arrears, estimated to have been \$63 million by the end of 1977, are continuing at high levels in 1978. As a result, most exporters now are requiring prepayments for goods shipped to Uganda. Last July, the foreign oil subsidiaries that supply Uganda (Shell/BP, AGIP, Total, Caltex, Mobile, and Exxon) suspended all oil shipments until payment was made on \$20 million to \$30 million in overdue bills. Another indication of the chaotic state of financial management in Kampala is the extraordinarily large entries for "errors and omissions" in Uganda's balance of payments; these apparently reflect widespread coffee smuggling, reportedly in part by Amin himself, and undocumented capital outflows. (C)

#### Impact of US Embargo

The US trade restrictions combined with the general downward trend in coffee prices will accelerate the fall

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in Uganda's trade surplus and undermine local coffee production. Although the United States normally buys only 6 percent of its coffee from Uganda, US purchases have represented about one-third of Ugandan coffee exports. US importers have already increased purchases from Indonesia, Ivory Coast, and Zaire to make up for the loss of Ugandan robusta coffee. Uganda, for its part, should be able to find alternative outlets--it has already approached Japan and reportedly has booked firm orders from East Germany. In order to sell off available supplies as the harvest progresses, the government probably will have to cut prices. Kampala may consider sales or barter deals with the USSR or Libya, its major aid suppliers. (S)

On the import side, the most immediate and critical loss will be oil. Ugandan stocks equal only about 14 days' supplies, at best. Oil purchases from the Kenyan subsidiaries of US firms had accounted for 40 percent of Uganda's petroleum imports of about 8,000 to 9,000 barrels per day. The US embargo, therefore, coupled with reduced deliveries from British suppliers because of payments arrears, is forcing further belt-tightening. The worst effects of the oil shortage will be felt in domestic transportation, making it increasingly difficult to get crops to markets. (C)

Kampala is having a difficult time finding alternative oil suppliers, despite Amin's close political ties with Libya and other Arab countries. Even if appeals to his Arab supporters prove successful, physical delivery would have to depend on Kenyan cooperation. Moreover, while subject to pressure because of the equity participation of the Ugandan Government in distribution facilities, French and Italian suppliers would be extremely reluctant to pick up the slack because of Kampala's poor payments record. (S)

#### Consequences for the Future

The erratic management of the economy, together with the US embargo and the growing suspicion of Uganda's creditworthiness, will keep Ugandan economic growth in the red for the foreseeable future. The current coffee harvest is expected to remain unchanged from last year's

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while robusta coffee prices, which have been stable over recent months at about \$1.40 a pound, are expected to resume their slide. Amin's government will also face tighter transportation bottlenecks because of fuel shortages and increased smuggling and corruption as Uganda's economic institutions continue to unravel. (C)

Compounding Amin's problems will be the probable growth in tensions with neighboring Tanzania, Kenya, Rwanda, and Sudan. The recent invasion of Tanzanian territory has strengthened Tanzanian President Nyerere's dislike and distrust of the Ugandan dictator. The Kenyan monopoly on ground transport to Uganda, which Nairobi has used in the past to impede Uganda's foreign shipments, will continue to pose the threat of economic strangulation. On the other hand, Rwanda and southern Sudan remain at the mercy of Amin's capricious behavior and of his relations with Nairobi because both depend on the same trans-Kenya routes, extended through Uganda. (S)

Rather than toppling Amin, Uganda's economic problems will probably induce even more radical measures to preserve power. Maintenance of economic privileges for the military, such as duty-free imports of consumer luxuries and plentiful supplies of fuel at subsidized prices, will receive the highest priority--at an increasing cost to the remainder of the beleaguered economy. Following the established pattern, even more frequent claims of invasions, coup attempts, and assassinations are probable. (S) (SECRET NOFORN-NOCONTRACT-ORCON)

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Sao Tome - Principe: Ties Strengthened With Cuba

President Manuel Pinto da Costa of Sao Tome - Principe completed a 10-day official trip to Cuba on 17 November and remained over a week longer on a private visit. His small, moderately leftist island nation already receives significant assistance from the Cubans, and his visit is likely to lead to even greater cooperation. President da Costa brought with him a wide-ranging entourage of high-level officials--including five Cabinet ministers--reflecting the various technical, scientific, and military exchanges between the two countries. Da Costa divided his time between substantive talks with Cuban Government officials, including President Fidel Castro, and touring agricultural, educational, and cultural facilities on the island. (C)

The Cubans reportedly have been on the scene since before Sao Tome received its independence from the Portuguese in 1975. After diplomatic relations were established in April 1976, Cuba became one of only three countries to have a resident representative along with the Soviets and the Portuguese. Since then, there have been a series of contacts: a delegation accompanying Angolan President Neto to Sao Tome in April 1976 included several Cubans; a Cuban delegation visited the island in September 1976 at the same time as Sao Tome Prime Minister Trovoadá was in Cuba; a Cuban delegation from the State Committee for Economic Cooperation signed a scientific and technical agreement in Sao Tome in November 1977; and the Sao Tome Minister of Agriculture, Labor, and Social Security paid an official visit to Cuba in February of this year. (S)

Between 150 and 300 Cubans are now in Sao Tome, of which 50 to 100 may be military advisers. Cuban specialists provide technical assistance in the fields of construction, public health, animal husbandry, foreign trade, agriculture, fishing, sports, and education; Havana has also made a gift of two fishing vessels. In addition, Sao Tomean students are among the contingent of African youths studying in Cuba. (S)

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Cuba has given formal on-island military training to about a dozen members of the Sao Tome armed forces, including the commander in chief. The Cubans have also used Sao Tome as a rest and recreation facility for some of their military personnel stationed in Angola. (S)

The joint communique issued at the end of da Costa's visit calls for an expansion and strengthening of political and economic ties between the two countries. A Cuban aid assessment team was in Sao Tome at the same time, probably to explore areas for increased assistance. As Havana prepares to host the 1979 nonaligned summit, da Costa's visit has served to underscore Cuba's image as a stalwart friend of "progressive" African nations, and also emphasizes Cuban interest in forging relations in the Third World based not only on direct military support--as in Angola and Ethiopia--but also on long-term civilian assistance programs. (S) (SECRET NOFORN-NOCONTRACT)

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Swaziland: The South African Connection

Since gaining independence in 1968, the Swazi Government's foreign policy has been shaped in large part by the fact that the country is almost totally surrounded by South Africa. Because Swaziland's economic and transportation needs are so tightly tied to South Africa--90 percent of the country's imports arrive through South Africa--and Pretoria retains an ever present potential to interfere in the country's internal affairs, the government's foreign policy decisions have usually been measured against the need to maintain good relations with its white-ruled neighbor. Since Mozambique became independent in 1975, however, Swaziland has found itself caught between its dependence on South Africa and a militant Mozambican Government that, despite its own economic ties to South Africa, sees itself in the forefront of African efforts to bring about majority rule in South Africa. (C)

In addition to the constraints placed on Swaziland by its economic ties to South Africa, the country's government, presided over by aging King Sobhuza, is motivated to maintain good relations with Pretoria. The traditionalist government believes it is threatened in the same way white South Africans are, namely, by a host of outside forces seeking the destruction of a social and political order that has served to protect the interests of the ruling elite. Since independence, the Swazi Government has sought to suppress any signs of change that could lead to pressures for reforming the country's political and social institutions. Consequently, close relations with South Africa are probably viewed as protection against Communist and radical change, whereas, Mozambique as a militant and Marxist state is seen as a serious threat to the preservation of traditional Swazi values and the monarchy. (C)

As a result, Swaziland has made little effort to disassociate itself from Pretoria and has indeed strengthened economic ties with South Africa. The government apparently also maintains a covert and close

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relationship with the South African police that appears to extend beyond cooperation in criminal matters to intelligence matters of mutual concern. In addition, South Africa has equipped the Swazi Army with light infantry weapons. (C)

Two recent events have further underscored Swaziland's close relations with South Africa. In early November, Prime Minister Maphevu Dlamini indicated [REDACTED] that Swaziland was against any UN-imposed economic sanctions against South Africa. In indicating his concern over the effects such sanctions--particularly on oil--would have on the Swazi economy, Maphevu stated that an international economic embargo against South Africa would mean "indirect killing of black people in southern Africa" and added that it would be "suicidal" for Swaziland to vote for sanctions. (C)

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More recently, Swaziland announced that it was cutting its links with the anti - South African Federation of International Football Associations. A Swazi official stated that "we cannot afford to boycott South Africa or participate in any sanctions." He added: "I don't see why we should deny a black man in South Africa the freedom of association with other black sportsmen." Swazi officials have pointed to the various Front-Line states, including Mozambique and Zambia, who continue to deal with South Africa because the economic problems of both countries require continued cooperation. (C)

Swaziland's relations with Pretoria are not likely to change in the near future. Should King Sobhuza die--he is in his late 70s--his successor would be confronted with the same geopolitical and economic realities. Nevertheless, Swaziland is already beginning to become involved, albeit very reluctantly, in the liberation effort against its white neighbor. There has been some evidence that Swaziland is being used increasingly by South African nationalist movements for the infiltration of arms and insurgents into South Africa. Swaziland is also being used more frequently as an escape route for black South African dissidents and refugees. Such activities are carefully monitored, however, and the Swazis are not

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allowed to become involved. In early 1978 several Pan Africanist Congress leaders were detained and later expelled for their involvement in cross-border operations.  
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Togo: Military Dissatisfaction

President Gnassingbe Eyadema, who heads Togo's pro-Western military government, has over the last several months lost the confidence of most of his senior military officers, including many of his northern supporters, [REDACTED]

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[REDACTED] There are also signs that Eyadema has lost considerable support among the civilian sector. At the root of his problems is his inability to cope with Togo's serious economic problems, his growing isolation, and his heavyhanded methods of dealing with what he believes are security threats. The latter efforts, which have intensified public alienation, have included attempts to link a ranking Army officer and prominent Togolese families with recent assassination plots against the president. (S)

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Eyadema's concerns have been heightened by the recent discovery of arms caches near the capital. We still have no confirmation that a significant military challenge to the President is afoot. But Eyadema's problems--particularly in the economic area--are likely to grow in the next few months. Moreover, Eyadema, who appears unwilling to accept criticism or moderate counsel in dealing with his problems, shows no signs of being able to come to grips with his economic difficulties. Given the current mood of the military, a continued deterioration in the country's foreign debt situation, a major oil shortage, or some other economic disruption could prompt the military to force Eyadema to step down. (S) (SECRET NO-FORN-NOCONTRACT-ORCON)

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